Supreme Court, U.S.
FILED
OCT 10 1996
CLERK

(3)

No. 96-195

IN THE
Supreme Court of the United States
OCTOBER TERM, 1996

DILLARD DEPARTMENT STORES, INC.,

Petitioner,

v.

HAROLD'S STORES, INC. AND
CMT ENTERPRISES, INC.,

Respondents.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Tenth Circuit

REPLY TO OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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REPLY TO OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

Dillard Department Stores, Inc. ("Dillard's") respectfully replies to the Opposition of Respondent Harold's Stores Inc. to Dillard's Petition for Writ of Certiorari to review the judgment of the United States Court of Appeals for the Tenth Circuit entered in this proceeding on May 6, 1996.

REPLY

I. The Relief Sought By Dillard's WILL Affect the Judgment Against Dillard's.

Harold's argues that Dillard's requested relief will not affect the judgment below because Dillard's sales below cost provided the basis for Harold's state-law anti-trust claim to avoid preemption by the Federal Copyright Act. Dillard's submits that this argument is simply a red herring. In fact, Dillard's sales below cost (as distinguished from its infringing sales *per se*) did not occur until well *after* the filing of the Complaint. (Appendix, at 4, 29, and 60). This "sales below cost" conduct by Dillard's was not included in the scope of Harold's original Complaint which, as filed initially, only

sought recovery from Dillard's for violating Oklahoma's antitrust laws on the basis of Dillard's copyright infringement alone. In fact, such conduct was not pleaded until Harold's Third Amended Complaint (Appendix, at 42 and 47) because the conduct had not occurred at the time Harold's filed suit for copyright infringement and violation of the Oklahoma antitrust law based solely upon such copyright infringement.[1]

The Circuit Court below made no mention of the sales below cost claim in analyzing Harold's state antitrust claim. Indeed, the Circuit Court specifically stated:

> Harold's based its Oklahoma Antitrust Act claim on Dillard's copyright infringement of the print fabric skirts and sportswear. Specifically, Harold's alleged in its third amended complaint that Dillard's copyright infringement constituted an act in restraint of trade in violation of the Oklahoma Antitrust Act, Okla. Stat. Tit. 79 § 1. Because Harold's Oklahoma Antitrust Act claim was premised on the same conduct as the copyright infringement claim, Dillard's asserts that § 301 of the Copyright Act preempts Harold's state law antitrust claim. *Harold's Stores v. Dillard Department Stores*, 82 F.3d 1533, 1543 (10th Cir. 1996) (Appendix, at 12).

Thus, the Circuit Court could have sidestepped the issue of preemption by simply holding that the state antitrust claim was supported by the sales below cost claim. However, it did not do so

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[1]"The evidence at trial indicated that the infringing garments were marked down [to below cost] during the pendency of the lawsuit." (Appendix, at 60). .

because clearly the sales below cost were *de minimis*,[2] and Harold's was relying upon the copyright infringement claim to support its state antitrust claim.[3]

Further, it is noted that Harold's sales below cost claim under the Oklahoma Unfair Sales Act was treated by the District Court as a separate basis for an award of damages, independent of both Harold's copyright infringement claim and its Oklahoma antitrust claim. This should further establish that it was not considered as an *extra element* forming part of the state antitrust claim to thus avoid copyright preemption.

Accordingly, Harold's arguments in this regard should be rejected as irrelevant.

II. The Circuits Are In Conflict Regarding the Relevance of the Infringement Defendant's *Conduct*.

Harold's denial that the Circuit Courts are split regarding the relevance of an infringement defendant's conduct in determining whether the Federal Copyright Act should preempt state law causes of action arising out of the copyright infringement ignores the plain language of the decisions. Moreover, and contrary to Harold's assertion, Dillard's does not contend that *only* the Fourth and Tenth

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[2]In fact, Dillard's ". . . offered for sale or had ordered a total of 37,000 garments which infringed Harold's copyrights" (Appendix, at 5), of which only 470 garments were sold below cost in the State of Oklahoma (Joint Stipulation, Appendix, at 81).

[3]In responding to Dillard's argument that the evidence was insufficient to support the damage award on the state antitrust claim, the Circuit Court held "[b]ecause Dillard's infringement of Harold's print fabric skirts in Oklahoma supplied the predicate act for Harold's claim for an antitrust violation under Okla. Stat. Tit. 79, § 1, we conclude that there was evidence to support the jury's damages award on the state antitrust claim." (Appendix, at 28-29). Again, the Circuit Court made no reference to the sales below cost claim nor did it rely on sales below cost as a basis for any damage award for the antitrust claim.

Circuits look to whether there exists an *extra element* beyond that required to prove copyright infringement to determine whether preemption is appropriate — it is not disputed that all of the Circuits purport to seek out such an *extra element*. Rather, Dillard's has demonstrated that in determining whether this *extra element* exists, the Fourth and Tenth Circuits, unlike the Second, Fifth, Seventh, and Ninth Circuits, have held that the *conduct* of the infringement defendant is irrelevant to this analysis. In this regard, the Fourth and Tenth Circuits have held that the infringement defendant "takes the wrong approach by focusing its preemption analysis on the *conduct* alleged to support the two causes of action." *See Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655, 659 (4th Cir.), *cert. denied*, 114 S.Ct. 443 (1993) (emphasis added) and *Harold's Stores, supra*, 82 F.3d at 1543 (Appendix, at 12).

As a result, the Fourth and Tenth Circuits stand in direct conflict with the Second, Fifth, Seventh, and Ninth Circuits, which require that this *extra element* test be satisfied by "different *conduct* on the part of the infringing party." *See Harper & Row Publishers v. Nation Enterprises*, 723 F.2d 195, 201 (2d Cir. 1983), *rev'd on other grounds*, 471 U.S. 539 (1985) (emphasis added). *See also*, *Daboud v. Gibbons*, 42 F.3d 285, 33 USPQ2d 1441, 1443 (5th Cir. 1995); *Baltimore Orioles v. Major League Baseball Players*, 805 F.2d 663, 676-77 (7th Cir. 1986); and *Oddo v. Ries*, 743 F.2d 630, 634 (9th Cir. 1984).

CONCLUSION

The petition for writ of certiorari should be GRANTED.

Respectfully submitted,

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Attorneys for Petitioner

October 10, 1996

APPENDIX

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF OKLAHOMA

HAROLD'S STORES, INC. and CMT ENTERPRISES, INC.,	)	
Plaintiffs,	)	CIV-93-1212-R
v.	)	
DILLARD DEPARTMENT STORES, INC.	)	
Defendant.	)	

JOINT STIPULATIONS

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Harold's Stores, Inc.

May 4, 1994

STIPULATIONS

Plaintiffs, Harold's Stores, Inc. and CMT Enterprises, Inc., and Defendant, Dillard Department Stores, Inc., in consideration of the mutual stipulations recited herein, agree and stipulate as follows:

1. That Plaintiffs are the owners of the following copyrights entitled: Cap Ferrat, Cap Ferrat - Lemonade, Chain Gang, Chain Gang - Red, Floral Friese, Floral Friese - Coral/Multi, Leaping Lizards, Leaping Lizards - Olive, Mardi Gras, Mardi Gras - Passion Fruit, Northern Exposure, Northern Exposure - Red, Real Life, Real Life - Red, Serape, Serape - Tijuana Red, Sign Language, Sign Language - Pastel, Southwest Scramble, Southwest Scramble - Navy, St. Moritz, St. Moritz - Green, Teepee Totems, Teepee Totems - Red - Teepee Totems - Vicuna, Thunderbird, Thunderbird - Black, Wimbledon, and Wimbledon - Navy and that these copyrights are valid.

2. That Defendant offered for sale and sold garments that are either identical or substantially similar to Plaintiffs' copyrighted fabric designs entitled: Cap Ferrat, Cap Ferrat - Lemonade, Floral Friese, Floral Friese - Coral/Multi, Mardi Gras, Mardi Gras - Passion Fruit, Real Life, Real Life - Red, Serape, Serape - Tijuana Red, Sign Language, Sign Language - Pastel, Teepee Totems, Teepee Totems - Red - Teepee totems - Vicuna, Thunderbird, Thunderbird - Black, Wimbledon, and Wimbledon - Navy, and therefore, Defendant does not contest Plaintiffs' claim that those copyrights were infringed.

3. That the garments which were offered for sale and sold by Defendant subject to Plaintiffs' copyright infringement claims were all in Defendant's stores prior to May 28, 1993, and that

Plaintiffs are not claiming the Copyright Act entitles Plaintiffs to statutory damages and/or attorney's fees because Plaintiffs did not file registrations for any of the copyrights involved in this action until on or after May 28, 1993.

4. Defendant cancelled or did not confirm all orders placed with Wadesboro Manufacturing Companies for garments which would infringe Plaintiffs' copyrights entitled: Chain Gang, Chain Gang - Red, Leaping Lizards, Leaping Lizards - Olive, Northern Exposure, Northern Exposure - Red, Southwest Scramble, Southwest Scramble - Navy, St. Moritz, St. Moritz - Green, and that Plaintiffs are seeking no damages for such cancelled or unconfirmed orders, but are seeking uncontested injunctive relief.

5. That as to the garments offered for sale and sold by Defendant subject to Plaintiffs' copyright infringement claims which were manufactured for Defendant by Cannontex ("the Cannontex Garments") bearing the Dillard's RN number:

(a) The estimated Landed Costs (cost of goods delivered into the United States, including import duties, but not including the cost of transportation to deliver the goods to Defendant's stores and other such costs subsequent to the port of entry in the United States) of the Cannontex garments ranged from $11.78 to $12.24.

(b) The regular retail prices at which Defendant offered the Cannontex garments for sale were either $28.00 or $30.00. On July 21, 1993, Defendant reduced the prices of the Cannontex garments on a system-wide basis to sale prices of $12.00 for the $28.00 garments, and $12.25 for the $30.00 garments. In Oklahoma, Defendant sold a total of 470 of these garments at these prices which were less than cost as defined by 15 O.S. § 598.2(a).

(c) The Cannontex garments were seasonable merchandise.

(d) Sales of the Cannontex garments in Oklahoma ended on or about August 23, 1993 pursuant to the agreement entered into between the parties on August 17, 1993.

6. That as to the garments offered for sale and sold by Defendant subject to Plaintiffs' copyright infringement claims which were manufactured for Defendant by Wadesboro Manufacturing Company ("Wadesboro"):

(a) System-wide, Defendant received a total of 4,480 garments from Wadesboro which were offered for sale by Defendant and are subject to Plaintiffs' copyright infringement claims.

(b) System-wide, Defendant sold a total of 1,652 garments from Wadesboro which are subject to Plaintiffs' copyright infringement claims, returning the balance of 2,828 garments to Wadesboro which are subject to Plaintiffs' copyright infringement claims.

7. That at a hearing before the court on August 17, 1993, on Plaintiffs' motion for temporary injunction to prevent Defendant from continuing to sell the garments which are subject to Plaintiffs' copyright infringement claims, Plaintiffs and Defendant agreed, and with Court approval, that Defendant would no longer sell these garments that are subject to Plaintiffs' copyright infringement claims in competition with Harold's, and that Defendant could continue to sell these garments indefinitely in designated geographical areas that are not in competition with Harold's. That in accordance with this agreement, Defendant moved all remaining garments that are subject to Plaintiffs' copyright infringement claims, to stores in the designated geographical areas, and continued to sell these garments without objection from Plaintiffs.

8. Plaintiffs' sales of its garments bearing the copyrighted fabric designs at issue in the immediate action have not been

reduced as a result of Defendant's sale of its garments that are subject to Plaintiffs' copyright infringement claims.

AGREED FOR PLAINTIFFS: HAROLD'S STORES, INC.

By: _____

CMT ENTERPRISES, INC.

By: _____

AGREED FOR DEFENDANT: DILLARD DEPARTMENT STORES, INC.

By: _____

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